

**2003 Full Year Results Speech**  
**24-25 February 2004 – Theatre, Concourse Level**

**Highlights**

Good morning everyone and welcome to the presentation of our results for the 12 months ending 31 December 2003.

I would like to say up front that we believe that these are a very strong set of results. We are very pleased with them and we think that they demonstrate clear evidence that the repositioning of the business over the last 3 or 4 years is not only strengthening our market position but also improving our financial performance.



I will start with a brief overview, Andy Penn, the Chief Financial Officer, will take you through the results in more detail, and I will finish with a review of our activities and prospects.



First the highlights of the Group result

Profit after tax (excluding Health profits) and before non-recurring items increased 97% to \$537 million.

Operating earnings were up 8% to \$301 million and, within this, operating earnings in Australia and New Zealand increased 17% to \$147 million, and in Hong Kong were up 1% to \$157 million.

The translation of the Hong Kong earnings into AUD\$ was obviously impacted by the strengthening of the AUD\$ and it masks strong operating performance in Hong Kong. In local currency operating earnings were up 21% to HK\$800 million.

Investment earnings benefited from the recovery in equity markets in the second half of the year, particularly in Asia. Group investment earnings were up 189% to \$322 million.

Group funds under management and administration grew 5% to \$51.1 billion and, as Andy will cover in his presentation, our already strong capital position has strengthened further.



Looking briefly at Australia and New Zealand, operating earnings, excluding profits from Health which, of course, was disposed of earlier in the year, grew 17% to \$147 million.

Although we were a whisker short of achieving the \$ target on value of new business, I think we can fairly claim that we have achieved 4 out of 5 of our K5 aspirational goals, and on K3, where we did not meet our target of reducing our expense ratio by 50%, we nevertheless made strong progress with the expense ratio reducing by 40%.

I am particularly pleased to report that we have achieved a top 3 ranking for net retail funds flows in 2003 based on the ASSIRT Market Share Report published last week.

In fact net retail fund flows were up 123% to \$3.7 billion including flows into our joint venture with Alliance Capital.

Total funds under management and administration were up 8% to \$44.2 billion and, within this, funds under advice and administration were up 28% to \$4.2 billion.

We have completed the integration of ipac and I am pleased with the way ipac and AXA have fitted together culturally and operationally.

I believe the business in Australia and New Zealand is now successfully repositioned for further growth. We have more to do to sustain the improvement we have seen in 2003 but we are now strong enough to compete with the best.



In Hong Kong new business grew 14% to HK\$1,032 million on an index basis of new regular premium plus 10% of single premiums despite the disruption caused by SARS in the first half of the year. Very encouragingly the value of new business grew 33% to HK\$519 million.

Helped by stronger investment markets, the investment margin earned in 2003 on participating business was over 9%, well in excess of our long term 1% per annum target.

Aggregate discontinuance rates improved further and were 8.8% for the year, better than our 9% target.

Funds under management grew 23% to just over HK\$40 billion and, as we will talk about later, we have further repositioned and restructured our distribution channels.



We have made good progress in 2003 in China. Operations in our second branch in Guangzhou commenced in November and we had nearly 800 agents by the year-end, ahead of our business plan.

In Shanghai we have seen very significant improvement in the second half of the year. New business grew by 46% and total premiums by 34%, and we have grown market share.

New business volumes in the rest of South East Asia have been mixed as we have taken strong action to ensure that new business is profitable. This has led to an encouraging increase in the value of new business which, across the region, and on a constant currency basis, grew by 78%.

The new bancassurance joint venture with Bank Mandiri that we announced last year commenced operations in December and is now being rolled out through the bank branches. And we have launched investment linked products in Indonesia and the Philippines.

I will now hand over to Andy Penn who will take you through the results in more detail.

### **Review of Activities**

Thank you Andy. I will now finish with a brief review of our activities and touch on our prospects for 2004 and beyond.



Firstly Australia and New Zealand. In April 2000 we launched our K5 transformation programme to strengthen and reposition the Australian and New Zealand businesses.

- At that time our market share in the fast growing investment and superannuation markets had steadily declined for a number of years and was well below where it had been historically for National Mutual.
- We were still a market leader in most risk insurance segments but income protection was unprofitable.
- Key aspects of the management of the AXA aligned networks was not under our direct control
- Our service and product offer was poorly perceived by non-AXA aligned distribution channels and we had low market penetration in anything other than capital guaranteed products
- The perception of our investment capability and investment performance in key asset classes was poor
- We had high costs relative to our competitors, and

- Underpinning many of these issues was the fact that, although the company had demutualised in the mid 90's, the culture had not really demutualised.



So in April 2000 we set out to all our people 5 clear, simple and aspirational goals – the K5 programme.

K5 was underpinned by seven strategic imperatives to address the performance and positioning issues that I have just summarised.

On behalf of my management team and all our people, can I say that we are very pleased with what we have achieved through what has been, in reality, one of the most difficult market environments for wealth management businesses in the last 30 years.



We have moved from having a weak, locally based asset management capability to being able to bring to the market the capabilities of a global asset management business through our joint venture with Alliance Capital and Bernstein.

We have built on this stronger foundation by re-launching most of our investment product range and introducing a range of new funds.

This has underpinned growth in funds under management and administration of 75% since the end of 2000 to \$44 billion.



We have moved from having a well regarded but sub scale platform in Summit, to being in the top 5 for funds under administration in master trusts and portfolio administration platforms.

Funds under administration have grown 60% to \$16 billion.



Our K2 objective – to move into the top 5 in net retail funds flows – was the one that was widely seen to be the most challenging and we are particularly pleased with the very strong progress we have made here.

In 1999 we had net retail funds flows of around \$300 million. This doubled in 2000 to \$648 million and nearly trebled in 2001 to \$1.8 billion.

2002 was a very difficult year for everyone in the retail investment business and our net fund flows were flat. But 2003 saw a strong return to growth with total net flows, including those of our joint venture partner Alliance Capital, up to \$3.7 billion.



This performance has led, I am pleased to say, to us achieving our K2 objective. In the recently published Assirt Market Share Report we were in the top 3 for net retail fund flows. The full year numbers for Plan for Life were not available at the time this presentation was prepared but, as you may recall, we were in the top 3 for the 12 months to 30 September and I am confident that we will have retained this position for full year 2003. We were well outside the top 10 in 1999, so getting into the top 3 in 2003 is a tremendous achievement. But we are realistic – we know that we need to improve further to sustain this position.



We are also in a strong position in New Zealand. Following the Spicers acquisition we are number one for retail funds under administration, and are in the top 3 in financial protection. As with Australia there is more to do if we are to sustain our position in New Zealand.



We have made good progress in improving funds retention. We have put in place structured retention and CRM programmes over the last 3 years and this has led to \$435 million of funds being retained or upsold which would otherwise have left AXA. This has been a significant contributor to the

improvement in our net flows position and we will continue to develop our capabilities in this area.



We acquired ipac in August 2002 and we had successfully completed the planned integration activities by August 2003.

We have achieved cost savings of \$10 million in 2003 and will achieve savings of \$15 million in 2004 – significantly greater levels than were assumed at the time of the acquisition.

I said at the time of acquisition that I expected the multiple of the price paid to net profit after tax to be in the range 13 to 17 times forecast 2003 earnings in normal market conditions. Although market conditions have been far from normal with falls in equity values in 2002 and the first half of 2003 leading to reduced income from fees and lower levels of gross inflows, I can report that we did, nevertheless, achieve this in 2003.

In addition to cost synergies we are benefiting from further synergies. Ipac now acts as the portfolio manager for AXA's multi-manager funds and now has \$8 billion in multi-manager portfolios – making ipac one of the largest in Australia – following the transfer of \$2 billion from AXA.

And we are starting to get the benefits of platform consolidation. New client flows into ipac are now into a new market offer, iAccess, which is built on the Summit platform.

The ipac equity partners programme has progressed well with 4 acquisitions in 2003.

And we are starting to leverage features of the ipac business model in the AXA aligned channels. Nearly 400 AXA advisers have now been trained on ipac's client engagement and lifestyle financial planning process which we

believe will lead to increased productivity and higher average funds under advice per client.



One of the most important of our strategic imperatives was to increase penetration of the non-AXA aligned channels and the independent self-licensed channel.

If we look at the top 10 external master trusts we have moved from a position where we had very low penetration on approved product lists, particularly for the higher value equity products, to having a much stronger representation. Total product listings have more than trebled over the last 2 years and, importantly, our position in relation to both Australian and global equities has been transformed. We are already seeing the benefits of this in increased fund flows particularly into our international equity value funds, but there is considerable potential in our position in other asset classes.



And if we look at the top 50 external dealer groups we see a similar position with AXA product listings again more than trebling. As I have previously said I regard this as a very important lead indicator which should enable us to further increase our market share as fund flows in the market generally grow, particularly into equity style products.



We have significantly increased sales of unit trusts and superannuation into non-AXA aligned channels. We are now a serious player in a channel in which, 4 years ago, we had an almost non-existent presence. Gross flows into retail mezzanine and personal superannuation from non-AXA aligned channels in 2003 were over \$900 million, 150% up on 2002.



Although AXA aligned distribution channels – AXA Financial Planning and Charter – were and remain sources of strategic and competitive advantage, the fact is that in the late 90's we were over reliant on these channels. Our success in increasing our penetration of non-AXA aligned channels and IFA's over the last 3½ years means that we now enjoy much more balanced

distribution. In 2003 about a third of fund sales came from AXA aligned channels, 40% from non-AXA aligned and 25% through our advice businesses, ipac and Monitor Money. In fact 2003 is the first year ever in which sales in absolute terms through non-AXA aligned channels exceeded those through AXA aligned channels.

So in summary I believe we have made outstanding progress against our K5 objectives.



K1 – to double the value of new business. We achieved 93% of our target. Bearing in mind the difficult market conditions I have no hesitation in claiming this one as a success.



K2 – to get into the top 5 for net retail funds flows. This was the hardest and we have done it.



K3 – to reduce our management expense ratio by 50%. Ironically this was probably, at the start, the one people thought we were most likely to achieve and yet this is the one where we haven't achieved our objective. However the reality is that we have exceeded our cost target measured in absolute dollar terms, and it has been the overall decline in fund flows across the market as a result of the difficult equity markets over the last 2 or 3 years that have meant that our ratio has not fallen as much as we had expected. Nonetheless we have reduced our expense ratio by 40% which I think is a creditable outcome and I believe that we are now at least in line with the average of our major competitors in contrast to the position we were in 4 years ago.



K4 – to get into the top quartile in rankings of service to advisers. In the Assirt survey in 2003 we were ranked 5<sup>th</sup> out of 26 having been something like 20<sup>th</sup> out of 24 in 1999.

And in New Zealand in the AC Nielsen survey we were ranked 1<sup>st</sup> in 2003. So we have clearly achieved the K4 objective.



And finally the SCOPE survey of staff attitudes. In 2003 AXA Australia and New Zealand was at the 16<sup>th</sup> percentile in the global AXA survey - so we have met our K5 objective.



I would now like to turn to Hong Kong.

Although our Hong Kong business in 1999 was performing well and in very much better shape than the business in Australia and New Zealand there were, nonetheless, a number of challenges. I think the catalyst for major change was the agent poaching that took place in 2000 and early 2001.

Our M6 transformation programme in Hong Kong was launched in 2001 and so we still have a little under a year to run before we can make the final assessment.



As in Australia, we set out a number of strategic imperatives to support the M6 objectives and these were focused on modernising the management system of our traditional agency channel, broadening our distribution and product range, carefully managing our asset liability mix to ensure that we deliver the target returns for participating business, and preparing for strong growth in savings and investment markets in Hong Kong.

2003 has been a year in which we have seen good performance across all the major indicators, and very clear signs that the M6 transformation programme, like K5, is working and delivering results.



Agent numbers have now clearly stabilised following the losses through poaching over 3 years ago and whilst numbers have not grown strongly, there has been some growth and the signs are positive.

Despite the disruption caused by SARS in the early part of the year, productivity has improved again and is well above the market average productivity for agency operations in Hong Kong.



We are now well down the path of restructuring and modernising the management system and processes in our successful traditional agency channel. A new agency management Blueprint was launched to the leaders, the managers and the agents in January. This represents a fundamental change from a “franchise” model – where much of the power and influence was in the hands of individual agency leaders – to a “career agency” model where the leaders are still leaders but where they operate within a tighter, management controlled business system.

Blueprint has introduced remuneration structures and practices for agents and leaders which are fully aligned with our strategic goals and with the creation of shareholder value.

And we have enhanced technology support and, training, and changed the incentives for managers to recruit and retain quality agents.

I can report that the rollout has been very positively received and supported by the agency leaders and it appears that one of the major risks – the reaction of the agency leaders – has been very well managed by our Hong Kong management team.

Blueprint has also been rolled out in China and this is one of the main reasons why we have seen such strong new business growth in China in the second half of 2003 and we plan to roll it out in Thailand, Philippines and Indonesia in 2004.



We have made further progress in diversifying our distribution base. Of total new business index in 2003 of just over HK\$1 billion, salaried advisers

accounted for 12% and brokers and direct channels 18%. As in Australia we are moving towards a more balanced distribution mix.



Whilst the traditional agency channel is still very successful, very strong and a major driver of value it is, nonetheless, good to see that the AXA managed agency operations now represent 43% of the total. This, and the implementation of agency Blueprint is giving us increased management control over this strategically important channel.

The number of salaried advisers has increased to 264 and, as you can see, average monthly productivity of the salaried advisers is more than double that of the traditional agency.



After 2 or 3 years of negative investment returns in equity markets, the very positive returns in the second half of the year have meant that the investment margin over the crediting rate for participating business was over 9% and well in excess of our long term target of 1% per annum.

We reduced policyholder crediting rates by 75 basis points in January 2003 and by a further 25 basis points in August.

We remain confident that our long term investment assumptions and asset liability models are consistent with the 1% margin assumption on which the value of our participating business is based.

We have made some reductions in the long-term assumed rates of return on equities. Based on our model the target long-term investment return for the 'NL series' is 6.5% per annum which is 1.75% in excess of the current policyholder crediting rates. This gives us a 75 basis point buffer over the target 1% per annum margin.



Aggregate persistency has improved for the third year in a row. The aggregate rate in 2003 was 8.8%. We have exceeded the target we set ourselves 3 years ago.

We have at the year-end made some minor changes in the long-term assumed persistency rates in our embedded and appraisal values; our current experience supports those long-term assumptions.



For many years the Hong Kong market has been a traditional life insurance market. However there are growing signs that this is changing and that we are going to see strong growth in retail savings and investments.

In April we launched a unit-linked retirement savings plan and have achieved HK\$30 million of new regular premium sales.

Despite the difficult equity markets in the last 2 or 3 years, 28% of our individual life sales were unit linked, a much higher percentage than the market average and if we have stable equity markets, I would expect the unit link proportion to grow in 2004.

We retained our 5% share of the MPF market with over HK\$3 billion funds under management. Whilst we are 6<sup>th</sup> or 7<sup>th</sup> in the market we do have the scale for sustainable profitability and this is a market that is forecast to grow from around HK\$60 billion today to HK\$500 billion by 2015.

Importantly, our investment performance is strong. In 2003, 3 out of our 4 rated MPF funds were in the top quartile.

And in anticipation of a growth in demand for financial planning in the high net worth segment we have launched the ipac financial advisory business.



In summary we are making good progress in Hong Kong towards the M6 goals.

The enterprise value in HKD increased strongly in 2003 helped by a significant increase in the value of new business, further improvements in persistency, strong investment earnings and further reductions in expenses. We are well on track to meet our objective here.



We have fallen behind our target of HK\$10 billion for total premiums. This is entirely due to the fact that our single premium sales are lower than we had originally planned. Investment markets have made the sale of unit linked single premium plans difficult, although this may change in 2004, and the pricing of structured guaranteed bonds in such a low interest rate environment is not attractive. We will not follow the path of some of our competitors in selling large volumes of single premium participating business with guaranteed surrender values as we regard this as high risk to shareholders if interest rates rise.

We are doing a lot of work on investigating profitable single premium product designs to take advantage of the very low rates being paid on bank deposits and I hope that we will be able to increase the rate of sales during 2004.



We are well on track to achieve our goal for total assets under management. Obviously the strong recovery in equity markets in the second half of 2003 has helped us here and we have also enjoyed strong net fund flows – around HK\$3.7 billion.



The AXA Kwok Wei brand remains strong with 100% brand recall and 75% unaided awareness and, as in Australia and New Zealand, employee satisfaction is in the top quartile of the SCOPE survey.



And finally M6 – to grow the value of new business to HK\$750 million in 2004. A very good year in 2003 with value of new business up 33% and we are also on track to meet this target.



In summary can I say that I believe that our results today provide clear evidence that the repositioning of our business in Australia and New Zealand and in Hong Kong has worked.

Our market positions have improved in almost all our market segments.

Strong financial performance is coming through.

And all of this is evidence of a stronger performance culture within the company.

In Australia and New Zealand our priorities going forward are to capitalise on the progress we have made under K5. I believe we are now fit to compete with the best. Whilst we have achieved our K2 goal of being in the top 5 there is more to do to if we are to sustain this position.

I am delighted that Andy Penn has been appointed Chief Executive for Australia and New Zealand. He has been a major contributor to the K5 programme. He will be setting a new set of stretch targets for our business over the next few years and we will be announcing these in early April.

Our other priority will be to capitalise on our acquisition of ipac and Spicers and to build the leading independent advisory businesses in Australia and New Zealand.

The priorities in Hong Kong, China and Asia are also very clear.

These are high growth markets with high profit margins, and we must further increase our market share in Hong Kong and strongly grow our market share in the other markets.

The potential in China is enormous. There are very encouraging signs in Shanghai and Guangzhou at the moment and we must ensure that these continue throughout 2004. We must also position ourselves for further expansion in China as new cities and markets open up at the end of the year under the terms of China's accession to the WTO.

And in the Philippines, Thailand and Indonesia we must grow our bank partnerships. We have a strong management team in the Asian Regional Centre led by Mark Pearson and AXA's exposure to the growth markets of Asia position us uniquely amongst our Australian peers.

In closing can I say that we see no reason to change the clear, focussed strategy of the last 4 years that is delivering strong results.

And can I also thank our senior management team who are all here this morning for their tremendous efforts. I can assure you that we are realistic and know that there is more to do to sustain our performance but I am confident, having seen this team perform over the last four years, that we can do just that.

Andrew Penn, CFO

Results Announcement

**24 February 2004**

## Profit & loss analysis

- Thank you Les and good morning.
- The benefits from the repositioning of our businesses over the past three years are reflected in the strong financial performance we are able to report today. We have seen positive results across most parts of our business in 2003.
- The Group profit after tax (excluding Health profits) and before non-recurring was \$537.1m. This is up 97% on the result for 2002.
- Operating earnings (excluding Health) were \$300.8m up 8% from last year.
- In local currencies, operating earnings increased by 17% in Australia and New Zealand to \$147.4 million and by 21% in Hong Kong to HK\$800.3 million. A very strong performance from both of our major businesses.
- Investment earnings were \$322.1m up 189% due mainly to improved equity markets.
- In aggregate, costs continued to fall as I will demonstrate later although those costs allocated as corporate increased slightly due to additional contributions to the Staff Superannuation Plan.
- Our interest expense reduced by 44% to \$43.8m. This improvement is mainly due to the reduction in our gearing levels following the sale of AXA Health and Members Equity.
- The sale of our Health business, our 50% share of Members Equity and our 3.7% minority interest in AXA Investment Managers contributed to a significant non-recurring profit totaling \$379.1m.
- Profit after tax and after non-recurring items was \$926m.
- Our result is all the more pleasing in light of the significant impact the appreciation of the Australian dollar has had on our offshore earnings. I will talk more about this later.

## **Earnings per share and return on equity**

- Turning to our key shareholder measures.
- Earnings per share before non-recurring items was 31.4 cents, a marked increase on 2002.
- Return on equity was 16.2%.
- Both our EPS and return on equity were assisted by the strong increase in investment earnings.
- The Board has declared a final dividend of 5.5 cents per share, up 10% on the final dividend for 2002.
- This brings the total dividend for the year to 10.25 cents, an increase of 5% over 2002.
- The final dividend will be franked to a level of 20%. As previously advised, the level of franking has reduced due to the lower proportion of Australian sourced earnings and the benefits of transitional tax relief for life insurance in Australia.
- We will continue to investigate capital management strategies to maximise returns for our shareholders. We expect to announce any changes prior to the 2004 interim dividend.

## **Capital structure**

- Over the course of the year, our capital position strengthened.
- All gearing measures reduced. In particular, the ratio of our senior debt to total capital resources halved to 13%. This followed the repayment of debt from the proceeds of the sale of AXA Health and Members Equity.
- As at 31 December 2003, we had total capital resources of \$5.3bn. This comprised \$3.7bn of ordinary equity, up \$628 million on 2002, \$894 million of hybrid equity, and \$712 million of senior debt.

## Capital usage

- Our total regulatory requirement as at 31 December 2003 was \$2.6bn. We have for the first time provided a split of our regulatory capital between our solvency requirement of \$1.9bn and the additional capital adequacy reserve we are required to hold which was \$707m as at December 2003.
- In addition to regulatory capital, \$1.7bn of capital represents the excess of market value over net assets of subsidiary companies.
- Target surplus at 31 December was \$615m. As I have previously explained this is an internal target to provide a buffer over regulatory capital requirements in periods of market volatility.
- The target surplus has reduced \$130m on the position as at 31 December 2002. This reduction is for two reasons firstly the release of the target surplus on the sale of health and secondly the impact of currency.
- In summary the aggregate of our target surplus of \$615 million and the capital over our target surplus of \$268m represents the amount we are holding in over our regulatory capital requirements. \$883 million as at the end of December 2003 compared to under \$779 million in 2002.

## **Illustrative value**

- Details of our illustrative enterprise value are provided in the investor compendium. In summary over the last twelve months the mid-point of the illustrative value per share has increased from \$2.94 to \$3.05.
- This increase reflects the impact of the strong operational improvements we have achieved in our businesses offset by the impact of the strengthening of the Australian dollar.
- The increase in the mid point of the value range on a constant exchange rate basis was 16% to \$3.42 per share.

## **ANZ Profit after tax and before non-recurring items**

- So that is the picture at the Group level, now I will focus on Australia and New Zealand.
- We achieved very strong growth in operating earnings in Australia & New Zealand, up 17% to \$147.3 million.
- The result was driven by improved equity markets and the delivery of the benefits from the K5 program including continued expense reductions. The result was also supported by the inclusion of the first full year of earnings from ipac. On a like for like basis operating earnings were up 13%.
- Encouragingly we saw growth in profit from most product groups. Overall wealth management grew 19% to \$91.1m and financial protection by 14% to \$56.2m
- Investment earnings in Australia and New Zealand were \$45.2m, slightly higher than 2002, due a strong improvement in investment markets, offset by currency translation impacts.

## **ANZ Operating earnings – Wealth Management**

- Operating earnings in Wealth Management products were up 19% to \$91.1million.
- The increase in our earnings illustrates the success of our strategic initiatives to improve our position in wealth management. It has been achieved against a background of significant ongoing reinvestment in this important area of our business. Moreover whilst investment markets ended the year strongly, for much of the year FUM balances were negatively effected by the difficult investment markets.
- Superannuation operating earnings were in line with last year despite lower average funds under management.
- Ordinary savings business was down, although the profit in 2002 included some one off impacts. This product line is closed to new business and is in run off.
- Retirement income profit was \$11.9m, up \$10.1m on 2002. This reflects the strong funds flow during the period and gains in equity markets.
- Operating profits from our investment businesses, which includes our 50% share of the profits in Alliance Capital were in line with last year. During 2003, we continued to invest heavily in this area including the establishment and launch of the Bernstein Australian equity value fund.
- There has also been significant ongoing investment in the platform area of our business. We have improved the functionality of SUMMIT, and have successfully completed the integration of the Assure Master Trust onto SUMMIT. As I have previously said we will be continuing to invest in platforms at the current level for at least a further 12-18 months.
- Profits from advice increased to \$22.8m, including the full years worth of profits from ipac. We acquired ipac in August 2002. Profits for this strategically important area of our business now represent 15% of our total profits for Australia and New Zealand.

## **ANZ Operating earnings – Financial Protection**

- Operating earnings in Financial Protection were up by 14% to \$56.2m.
- Individual income protection operating earnings were again positive at \$13.6m. This included capitalised loss reversals of \$6m compared to reversals in 2002 of \$15m. The underlying result has therefore been a strong growth in profit for the year.
- Individual Term and Trauma insurance was \$25.9m, up 29%, a very pleasing result.
- Group risk has now moved out of loss, reflecting ongoing management attention in this area; and
- The long-term life business, which includes predominantly our old style endowment and whole of life products, contributed \$14.9m.

## **ANZ Investment Earnings**

- Investment earnings in Australia and New Zealand were \$45.2m, slightly up on 2002.
- The portfolio assets representing invested shareholder capital returned \$45.0m for the year. This is up considerably on last year as a result of improved equity markets.
- The other major impact on the result was the appreciation of the Australian dollar through 2003. The 2002 result contained a \$27.1m foreign currency translation gain from assets held in New Zealand. This year there was a foreign currency translation loss of \$8.6m.

## **ANZ new business/gross inflows**

- Turning now to sales.
- Overall sales results in Australia and New Zealand have been positive.
- New annual premiums in Financial Protection products were down slightly although this was mainly in the area of group life due to initiatives taken to reposition that business towards more profitable segments.
- On the wealth management side total gross inflows were up 12% to \$10.5bn.
- In Australia, highlights included increases in business superannuation and strong investment product sales. We saw strong inflows to the Bernstein Global Equity Value fund and into our mortgage funds, property trusts and cash products.
- Sales into Summit were down on last year reflecting the industry experience. Encouragingly SUMMIT has responded well to the improvement in global equity markets and on a run rate basis is now performing better than the first half of 2003.
- Wealth management flows in New Zealand were down 9%. This was due to the difficult first half in investment markets and the uncertainty this created for investors. However, during this difficult period industry data indicates that we have gained relative market share.

## **ANZ value of new business**

- The value of new business increased 21% to \$70m.
- This was mainly driven by the good sales performance.
- We have also included for the first time the value of automatic future CPI increases on a new business policy in line with industry practice. In the past this was only included in the value of in-force.

## **ANZ Total management expenses**

- Finally in relation to Australia and New Zealand total management expenses excluding commission and related costs were down 5% to \$420 million.
- Our expense reduction program continues to be on track and that has enabled us to reinvest a further \$81m into the business in 2003.
- Since the launch of the K5 program we have reduced expenses by more than 10% per annum.

## **HK Profit after tax and before non-recurring items**

- Now turning to Hong Kong.
- In local currency profit after tax and before non-recurring items for the year was HK\$2.2bn compared to almost HK\$1bn last year.
- Underlying this result was a 21% improvement in operating earnings to HK\$800.3m.
- Operating earnings were favourably impacted by sales and the strong investment returns, particularly in the final quarter.
- As foreshadowed at the half year we also introduced a change in the profit carrier assumption for the participating life business which had a positive impact of HK\$73m. This is a half year effect. Excluding this, operating earnings were up 10%. There will be a full year effect of this change in 2004 which we estimate will be approximately HK\$110 million.
- Investment earnings in 2003 were HK\$1.4bn, up considerably over 2002. I will comment on this in more detail in a moment.
- Needless to say the appreciation of the Australian dollar relative to the US dollar has had a major impact on our reported earnings. Operating earnings are 17% or A\$32m lower than they would have otherwise been and investment earnings were negatively impacted to the tune of A\$55m.
- It is important to remember that in accordance with usual accounting conventions we use the average exchange rates to translate our profits from Hong Kong. Profits in 2004 will therefore be further effected by the appreciation of the Australian dollar assuming exchange rates stay at or above current levels. The Australian/US dollar spot rate as at 31 December was about 75 cents which was 15% higher than the average rate used to translate profit and 5 cents below the exchange rate today.

## **HK Investment Earnings**

- Investment earnings were up significantly on 2002 at more than HK\$1.4bn.
- Returns on equity investments were almost HK\$1bn a 31.8% return, compared to losses of HK\$512m in 2002. These were strongly supported by the recovery in global equity markets, particularly the US following the war in Iraq and similar improvements in Asian equity markets.
- Our return on fixed interest investments is mainly all attributable to running yields as I will demonstrate in a moment. Ultimately the increase in US bond yields over the year was more than offset by a contraction in corporate spreads.
- The reduction in property relates to the revaluation of our investment in the AXA Centre in Hong Kong. Needless to say the HK property market has been materially impacted by the global investment market difficulties over the last 2/3 years.

## HK Investment margin on policyholder assets

- This strong investment performance in 2003 has meant that we have more than achieved our target of a 1% margin on investment returns for participating life business. In fact the margin, ie the total return less that which has been credited to policyholders was 9.8%
- Crediting rates in 2003 on the NL series were 4.75%. This follows steps we took to reduce crediting rates by 75 basis points in January and again by 25 basis points in August.
- When looked at on a market value basis our strong investment performance has eliminated the notional asset deficit, ie - difference between the face value of the participating accounts and the underlying asset shares. This deficit arose in the past where investment returns had not been sufficient to cover crediting rates.
- However, our long term asset model does assume US interest rates approximately 100 basis points higher than where they are today. On an economic basis therefore there is still a gap between the face value of the accounts and the underlying economic position. This gap has reduced over the last 12 months and we would expect it to be eliminated over 3-4 years based on our long term assumptions.
- Finally it is also worth mentioning that in the capital slide I put up earlier we have already provided for interest rates at our long term assumed rate. To be clear that means that our strong capital position as I presented would not be negatively impacted by an increase in interest rates of up to 1%.
- In summary we have implemented a number of initiatives to proactively manage our position relative to our guaranteed business in Hong Kong. This business remains very profitable for us from the point of view of operating earnings and as we have been saying for some time, we remain confident that our target of a 1% margin on investment returns is also achievable.

## **HK New business**

- New business in Hong Kong showed strong growth compared to last year.
- Total new business, including regular premium and 10% of single premium was up 14% to more than HK\$1bn.
- Individual life – regular premium sales continued to be strong up 22%. We also saw a movement back to unit linked business with sales for unit linked up 59% compared non-linked up 11%.
- Finally MPF and retirement sales were also up 48% to HK\$40.1m.

## **HK Value of new business**

- The strong sales performance has flowed through into the Value of new business, which was up 33% to HK\$519m.
- We have reduced our long term earning rate assumption on equities by between 50 and 100 basis points. We have correspondingly reduced the risk discount rate which we are using for Hong Kong by 100 basis points.
- On a consistent economic basis, the value of new business would have increased by 28%.

## **HK Total management expenses**

- Total expenses excluding commission and related costs in Hong Kong were HK\$403m down 2%. This includes a 1% reduction in recurring management expenses, despite the growth in sales and inforce business which we have achieved.
- The increase in development expenses was offset by a decrease in one-off expenses compared to 2002.
- Since the launch of the M6 program we have reduced expenses by more than 7% per annum.
- Similarly to Australia and New Zealand, our ongoing focus on cost reduction in Hong Kong has enabled us to make significant investments in the business through various business improvement projects.

## **China & SEA New business premium**

- Finally a few words on the other Asian businesses.
- New business increased in Thailand and China. It was up slightly in Indonesia and reduced in Singapore and the Philippines.
- Sales were adversely impacted in Singapore by SARS in the first half – more so than Hong Kong. In the Philippines we took steps to improve business profitability which led to some product changes which impacted sales.
- In fact across the region, there has been an increased focus this year on improving product profitability, with re-pricing and changes to contract terms and conditions and the introduction of unit-linked products in the Philippines, China and Indonesia.
- As a consequence of these initiatives the Value of New Business increased by 78% for the region on a constant currency basis.
- In total the value of new business for the 12 months to 31 December 2003 represented a little over 6% of the Group's total at \$11m Australian dollars.

## Summary

- That concludes my comments on the financial results for the full year.
- In summary, our strong operating performance has delivered excellent financial results with progress on every important measure of financial performance. Our transformation programs have clearly delivered a positive impact on our bottom line.
- At the same time as strengthening our operating performance, our already strong capital position has strengthened further. We have capital resources over our regulatory capital requirements and our gearing levels have halved during the year.
- We are well placed to continue to grow profitability and provide attractive returns for our shareholders.
- I will now hand back to Les to take you through a more detailed review of activities.